Maximising the Benefits of Growth

Report of Budget & Performance Scrutiny Committee

May 2017
Members of Budget and Performance Scrutiny Committee

Cllr Alistair Strathern, Chair
Cllr Jenny Gray, Vice-Chair
Cllr Mohammad Asghar
Cllr Matt Davis
Cllr Caroline Erics
Cllr Keith Rayner
Chair’s Foreword

Waltham Forest, like many London boroughs, is going through a period of immense strain. As central government continues to slash funding for local government, locally we have had to make millions of pounds in savings, year after year, to ensure budgets are balanced. In doing so, the Council has continued to demonstrate its willingness to make innovative and tough decisions where necessary to ensure the services we all rely on locally can be protected. The Council’s Redefining Waltham Forest programme has challenged us all to fundamentally re-think the services we offer and the way we provide them, enabling the protection of vital facilities like our local children’s centres.

Going forwards though, good financial management and planning will not be enough. Faced with a growing borough, and the pressures this brings, it will be vital that as well as delivering savings, Waltham Forest looks to be even more ambitious in its approach to raising revenues.

This report reflects the Budget Scrutiny Committee’s contribution to this debate, drawing upon lessons from across London to identify areas where locally we can be looking to do even better. On issues as wide ranging as the Council’s housing development vehicle to the CIL levy, which both present massive opportunity’s for the council to capture the financial benefits of growth for the benefit of all in Waltham Forest. We would encourage the Council to be as ambitious as possible here, ensuring everything possible is done to seize the opportunity for Waltham Forest to secure valuable
independence from central government to fund and protect the services all rely on locally.

To conclude on a personal note, I would like to thank my fellow committee members and officers without whose engagement and insights this report would not be possible.
1. Executive Summary

1.1 In 2020 central government will end the provision of revenue support grant (RSG) to local authorities, meaning that the challenge of meeting the financial requirements of delivering services to meet the needs of an increasing population will become even more challenging. As part of these changes to the system, there is the expectation that local authorities will become more financially independent, for example by raising money through the new system for business rates retention. This new approach aims to incentivise local authorities to drive local growth and economic development.

Background

1.2 Waltham Forest Council has had to make approximately £110 million of savings since 2010, driven by reductions in central government funding over the same period. It has approached these savings requirements in a positive way through the Redefining Waltham Forest programme, using the savings process as an opportunity to make improvements in the way that Council services operate and delivering better outcomes for residents.

1.3 While it is absolutely right to focus on what the Council can do to save money, it must also ensure that it explores all opportunities to generate income in order to plug gaps in funding, and economic growth has the potential to provide significant income if it is approached in the right way. The Committee believes that the excellent work taking place on financial planning and that focussing on driving local growth
should be brought together. This will ensure that the Council can capitalise on the opportunities presented by economic growth in the borough, in order to secure its own financial position.

Community Infrastructure Levy and Section 106

1.4 Community Infrastructure Levy (CIL) is a non-negotiable levy applied to all eligible developments and there are two types, Mayoral CIL (MCIL) and local CIL (LCIL). The purpose of LCIL is to generate the maximum income to deliver infrastructure to support the development of local areas. The types of projects which LCIL may fund are identified in the borough’s Regulation 123 list, which at present identifies generic infrastructure types, such as education, health and open space.

1.5 Given the discrepancies in the CIL charging schedule between Waltham Forest and some neighbouring boroughs, the Committee felt that this was a missed opportunity in terms of ensuring that the Council maximises its income from this source. The Committee felt that even a significant increase in the rates would not have a negative impact on developer interest given the desirability of the borough as an area for development. Although, any potential impact on developers’ interest would need to be taken into account if changes were made.
1.6 Section 106 (S.106) agreements are the legal framework through which planning obligations are agreed between the Council, land owners and developers. Once a sum is secured through the planning process the Council collects the money from the developer according to the individual trigger points identified in the legal agreement, for example commencement on site. During discussions, the Committee agreed that they would like to see more clarity on how the spending priorities for S.106 are decided, including how members can be involved in this process. Departmental budgets already factor in expected S.106 contributions, so any changes to S.106 priorities and allocations would need to take place in close consultation with departmental finance leads.

_Council Housing Vehicles_

1.7 There has been a significant change in Council policy relating to Council-owned land and property in the last five years. The policy has moved away from an assumption in favour of selling Council-owned land in order to deliver a capital receipt, towards thinking more strategically about how to develop land as a future income stream. This change in approach has led to the development of the Council’s special purpose vehicle, Waltham Forest Developments Ltd (WFD), in order to deliver development on these sites, in partnership with external agencies.
1.8 The Committee welcomed the establishment of WFD, especially as the vehicle had been a long time in the making. The Committee was also assured to hear of the proposals to look at acquiring property, in particular commercial sites, and encouraged officers to actively pursue these as an opportunity to increase WFD’s portfolio, as well as to further improve the borough’s business rate base.

Council tax and business rates

1.9 The Committee heard evidence from officers on the challenges in conducting accurate financial planning in the current environment, due to uncertainty around the future major reforms in local government finance. The new finance system is due to go live in two years, but there is still scant detail around how it will work and thus the ability of the finance team to plan accurately is limited.

1.10 The 100% retention of business rates has been supported by local government for decades as it means that 100% of all taxes raised locally will be retained by local government. The Government’s objective is to provide communities with the financial independence, stability and incentive to push for local growth and new models of delivering public services.

1.11 The Committee discussed the potential for the Council to make more flexible use of its reserves, based on a more detailed understanding of the risk appetite of the organisation. Cabinet has recently approved the use of any
surplus in the Council Tax Collection Fund to be set aside in a separate reserve to cover the risks associated with the business rates revaluation. As well as more general uncertainty around how the new localised taxation system will work in practice.

1.12 There are additional options for increasing the Council Tax base. The Committee were particularly interested in ways to improve collection rate performance. For example, in Hammersmith and Fulham they have increased the collection rate by reducing the lag time in payments between tenancies. In addition, Lewisham has brought its Council Tax collection service back in house and this has also improved collection rates. The Committee felt that there are opportunities for the Council to do more to improve collection rates, alongside increasing the overall Council Tax base by building more homes.
Summary of Recommendations

1. Ensure the process for reviewing the CIL charging schedule is accelerated wherever possible, to ensure the Council can benefit from a more appropriate schedule at the earliest opportunity.

2. Through the process of reviewing the CIL schedule, the Council should take into account continued pressures both on housing and infrastructure locally and across London, to ensure any future schedule remains fit for purpose over its intended lifetime.

3. The Council should investigate options for developing a process of deciding S.106 spending priorities that is linked more closely to corporate priorities and the capital programme, as well as including the involvement of elected members.

4. The Council should investigate putting in place a clear framework for decision making around disposal of Council land assets, which should include a presumption that prior to any decision making stage, the development vehicle is consulted to propose an in-house option for the site.

5. Working together, the Housing and Growth directorates should consider whether there is scope for the vehicle to play a more ambitious role in delivering and capturing value from key development areas in the borough. This
should form part of the relevant Scrutiny Committees agenda going forwards.

6. Finance officers should explore the scope to improve planning around reserves, and there potential for use in investment, by establishing a clearer articulation of the Council’s risk appetite for reserves.

7. As the tax base continues to grow, the Revenue and Benefits Service should explore options for improving Council Tax collection rates, for example by bringing collection back in-house or reducing the lag in payments between tenancies by automatically targeting landlords. These could provide valuable pilots for widening the use of data driven approaches to maximising revenue collection.

8. Waltham Forest should engage closely with other London councils to ensure it is well placed to capitalise on the transition towards 100% retention of business rates. The opportunity to enter into a pilot pool in 2018/19 could provide a valuable chance to support this.
2. Introduction

2.1 In 2020 central government will end the provision of the revenue support grant (RSG) to local authorities, meaning that the challenge of meeting the financial requirements of delivering services to meet the needs of an increasing population will become even more challenging. As part of these changes to the system, there is the expectation that local authorities will become more financially independent, for example by raising money through the new system for business rates retention. This new approach aims to incentivise local authorities to drive local growth and economic development.

2.2 Growth, development and regeneration are topics often looked at within other scrutiny committees, for example Growth and Housing, but up until now they have not been examined in direct relation to how they can support the Council’s plans for financial management in an uncertain financial climate. In 2015/16, the Budget Scrutiny Committee recommended that an income generation strategy be developed by the Council, and ensuring that the benefits of growth are maximised in terms of their benefits to Council finances is key to this. This report looks at how the Council’s growth agenda might contribute directly to the future financial sustainability of the Council.
Background

2.3 Waltham Forest Council has had to make approximately £110 million of savings since 2010, driven by reductions in central government funding over the same period. It has approached these savings requirements in a positive way through the Redefining Waltham Forest programme, using the savings process as an opportunity to make improvements in the way that Council services operate and delivering better outcomes for residents. Given the further changes in the funding system which are due to come into force, it is expected that significant further savings will be required in the coming years.

2.4 At the same as facing these funding challenges, the borough is a significant focus for external investment, with development opportunities in the borough estimated to be worth up to £1 billion between now and 2020. The Council is strongly supporting this focus on development and growth, for example through the publication and implementation of its Economic Growth Strategy 2016-20, which outlines how the Council will work to shape this growth in the best interests of its residents.

2.5 While it is absolutely right to focus on what the Council can do to save money, it must also ensure that it explores all opportunities to generate income in order to plug gaps in funding, and economic growth has the potential to provide
significant income if it is approached in the right way. The Committee believes that the excellent work taking place on financial planning and that focussing on driving local growth should be brought together. This will ensure that the Council can capitalise on the opportunities presented by economic growth in the borough in order to secure its own financial position.

2.6 This report outlines three areas in which there is potential for the Council to increase its income:

- Section 106 and Community Infrastructure Levy
- Council housing vehicle
- Business rates and Council Tax

2.7 In each of these areas, the Committee has identified ways in which the Council could capitalise on them to ensure that they can contribute positively to the Council’s financial sustainability.
2.8 The Committee dedicated its December 2016 meeting to considering the topic of this themed review, examining each of the areas outlined above as separate items on the agenda. The Committee has also taken into account other relevant agenda items and input from officers across the whole municipal year; and has been supported by the Policy and Public Affairs Team to identify other relevant evidence and examples of best practice from elsewhere.
3. Community Infrastructure Levy and Section 106

3.1 Development-related income presents two challenges – how to raise the most from development and how to ensure that it is spent where it is needed. The Committee considered both of these issues when hearing evidence on the Community Infrastructure Levy and Section 106.

3.2 Community Infrastructure Levy (CIL) is a non-negotiable levy applied to all eligible developments – there are two types, Mayoral CIL (MCIL) and Local CIL (LCIL)\(^1\). The purpose of LCIL is to generate the maximum income to deliver infrastructure to support the development of local areas. The types of projects which LCIL may fund are identified in the borough’s Regulation 123 list\(^2\), which at present identifies generic infrastructure types, such as

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1 The Council has been collecting MCIL (on behalf of the Mayor) since 2012, levied at £20 per m\(^2\) of Gross Internal Area (GIA), which is passed directly to the GLA. The rate of MCIL is set by the GLA, and funds must be spent on roads or other transport facilities. It is currently allocated to Crossrail. The borough is entitled to retain 4% for monitoring and administrative purposes. As of 14 December 2016, the Council had collected £2,429,118.49 of Mayoral CIL to date.

2 Regulation 123 is the requirement for a published list of infrastructure projects or types of infrastructure that the Charging Authority intends will be, or may be, wholly or partly funded by CIL.
education, health and open space. Currently the Council has committed to priority funding the LCIL contribution towards the cost of re-opening Lea Bridge Station, with an allocation of £3,034,962 approved at Cabinet in July 2014. The funds available for other infrastructure items will accordingly be limited in the short-term.

3.3 CIL rates are calculated on a gross internal area (GIA) basis and Waltham Forest’s rates are set at £70 per m2 in the south of the borough and £65 per m2 in the north. Officers explained to the Committee that these rates are low compared to some of our neighbouring boroughs. For example, Haringey is divided into 14 zones, of which the most expensive is £265 per m2, the higher rate in Hackney is £190 per m2, while Newham’s are on a scale between £40 and £80 per m2, and Redbridge has a flat rate of £70 per m2.

3.4 Given the discrepancies in the CIL charging schedule between Waltham Forest and some neighbouring boroughs, the Committee felt that this was a missed opportunity in terms of ensuring that the Council maximises its income from this source. The Committee felt that even a significant increase in the rates would not have a negative impact on developer interest given the desirability of the borough as an area for development, although any potential impact on developers’ interest would need to be taken into account if changes were made.
3.5 Officers acknowledged the need to look at changing the charging schedule to ensure that Waltham Forest is getting the best possible returns and delivering the infrastructure that new and existing residents need. The process of reviewing the CIL charging schedule has started, with an external consultant in place, but this can take some time (anywhere up to 12 months), as it is a statutory process which involves an eight-week consultation period and gaining approval from an Independent Planning Inspector. While there are some processes that are outside of the control of the Council (such as awaiting the decision of the Inspector) and cannot be sped up, the Committee agreed that officers should seek to identify all opportunities for expediting the process to ensure that the Council can maximise its income as soon as possible, especially given the quantum of development coming forward in the next few years. The Council has now commissioned BNP Paribas to review the CIL charging schedule. The whole process will take almost a year to complete as it will require consultation and Examination in Public.

3.6 The Committee was told that changes to CIL are being proposed by the Government. The suggestion is a Local Infrastructure Tariff that would be set locally. An announcement on final changes is expected in the autumn. There is only a single pot of money associated with any development – so any increase in CIL payments would likely result in a reduction in S.106 rather than an overall net increase. Most large scale applications are subject to a
viability review which determines the level of S.106 and the affordable housing that can be leveraged.

3.7 Section 106 (S.106) agreements are the legal framework through which planning obligations are agreed between the Council, land owners and developers. Once a sum is secured through the planning process the Council collects the money from the developer according to the individual trigger points identified in the legal agreement, for example commencement on site. The Council holds this money until a suitable project is identified that matches the precise funding purpose identified in the legal agreement. The S.106 Management Board meets every two months to provide the strategic direction of S.106 across the borough, it aims to identify schemes to be funded and prioritised through S.106 obligations and detecting any spending gaps for infrastructure needs.

3.8 During discussions, the Committee agreed that they would like more clarity on how the spending priorities for S.106 are decided, including how members can be involved in this process. Departmental budgets already factor in expected S.106 contributions, so any changes to S.106 priorities and allocations would need to take place in close consultation with departmental finance leads.

3.9 S.106 mitigates the effects of development on an area. The Committee was told that it is not possible in all cases to align S.106 requirements with corporate priorities. An update of the Infrastructure Delivery Plan is underway. This should
help in setting priorities for spending CIL and S.106. The Committee was informed that there will be full consultation and engagement with Members. Heads of Terms for S.106 agreements are included in Planning Committee reports and therefore agreed by Members as part of the decision making on planning applications.

Recommendations:

1. **Ensure the process for reviewing the CIL charging schedule is accelerated wherever possible, to ensure the council can benefit from a more appropriate schedule at the earliest opportunity.**

2. **Through the process of reviewing the CIL schedule, the council should take into account continued pressures both on housing and infrastructure locally and across London, to ensure any future schedule remains fit for purpose over its intended lifetime.**

3. **The council should investigate options for developing a process of deciding S.106 spending priorities that is linked more closely to corporate priorities and the capital programme, as well as including the involvement of elected members.**
4. Council Housing Vehicle

4.1 There has been a significant change in Council policy relating to Council-owned land and property in the last five years. The policy has moved away from an assumption in favour of selling Council-owned land in order to deliver a capital receipt, towards thinking more strategically about how to develop land as a future income stream.

4.2 This change in approach has led to the development of the Council’s special purpose vehicle, Waltham Forest Developments Ltd (WFD), in order to deliver development on these sites, in partnership with external agencies. This approach reflects the direction of travel for the Council in terms of developing different vehicles for funding and delivery in light of the changing nature of local government funding and the associated financial challenges, for example the expansion of the Council’s commercial services division.

4.3 The purpose of WFD is to:

- Operate as a commercial company (for trading or other purposes) and deliver a financial return for the benefit of the Council and/or to fund the Company’s future business activities;

- Purchase land and property either from the Council or on the open market;
• Acquire, develop, construct and/or refurbish residential homes and retail or commercial premises in accordance with the Business Plan

• Undertake any other activity reasonably incidental to the above

4.4 WFD is as a wholly owned Company Limited by Shares. This allows for future flexibility for the Council and the Company to determine the most appropriate structure and approach to future development or investment activities.

4.5 Operating through such a company potentially offers an easier route to implement structures for projects. For instance, the Council may decide to deliver projects through a series of individual vehicles for example, with the Company acting as a holding company for the vehicles, or to split distinct elements of a complex project into separate vehicles. Alternatively, the Council may decide to form a strategic partnership with a co-investor (possibly a financial investor or a housing developer). By selling part of its stake in the Company to the co-investor, the Council could change the Company from a wholly owned subsidiary into a Joint Venture company. This would be relatively straightforward option with the Company established and trading. A further advantage, to not being wholly owned by the Council, is that accrued Right to Buy receipts could be used to fund up to 30% of the development costs for the affordable rented homes in any development.
4.6 Revenue for the Council’s General Fund will be created by a combination of:

- Margin on cost of funds where the Council on-lends to the Company
- Dividend payments (after corporation tax)
- Ground rents where land is sold to the Company under lease
- Payments for provision of services to the Company by the Council for, say development management and housing management.

4.7 In the first portfolio of development the Council will provide development finance to the Company through making loans at a commercial interest rate. The Council will raise the finance via the Public Works Loan Board and on-lend at a margin to ensure compliance with state aid regulations. However the Company will be able to access external finance, whether from other bodies such as the European Investment Bank or, from investors either as part of a single development or across a portfolio of sites.

4.8 The Committee learnt a preliminary programme of development and investment activities for the Company has been identified. This programme runs for five years up to 2020/21 and includes the development of some 189 mixed tenure homes on Council-owned land. The programme also makes provision for the acquisition of a further 260
affordable homes from Council-led developments at Central Parade, Juniper House and Coronation Square. This new approach is supported by the development and implementation of the Council’s property strategy, which seeks to gain the best possible long-term return from any assets. This complements the basis of the budget strategy around increasing the council tax and business rate base and there is potential not only to continue to move away from land disposal, but also to look at the acquisition of property for income-generation purposes, in the borough and beyond. The new investment vehicle supports this approach.

4.9 The Council is also looking at how it might use the pension fund in order to redevelop or improve commercial property in the borough that is no longer fit for purpose, with a view to tackling the challenge of a lack of high quality business space in the borough and providing prudent investment for the pension fund. This would also have a positive impact on the borough’s business rates base.

4.10 The Committee welcomed the establishment of WFD, especially as the vehicle had been a long time in the making. The Committee was also assured to hear of the proposals to look at acquiring property, in particular commercial sites, and encouraged officers to actively pursue these as an opportunity to increase WFD’s portfolio, as well as to further improve the borough’s business rates base.
Recommendations

4. Council should investigate putting in place a clear framework for decision making around disposal of council land assets, which should include a presumption that prior to any decision making stage the development vehicle is consulted to propose an in house option for the site.

5. Working together Housing and Growth directorates should consider whether there is scope for the vehicle to play a more ambitious role in delivering, and capturing value from, key development areas for the borough. This should form a part of the relevant scrutiny committee’s agenda going forwards.
5. Council Tax and business rates

5.1 The Committee heard evidence from officers on the challenges in conducting accurate financial planning in the current environment, due to uncertainty around the future major reforms in local government finance outlined above. The new system is due to go live in two years, but there is still scant detail around how it will work and thus the ability of the finance team to plan accurately is limited.

5.2 The 100% retention of business rates has been supported by local government for decades as it means that 100% of all taxes raised locally will be retained by local government. The Government’s objective is to provide communities with the financial independence, stability and incentive to push for local growth and new models of delivering public services. The complexity in this new system comes from the need to achieve the right balance between providing an incentive for growth in local areas and considering the distribution of resources between local authorities. There will need to be a system of redistribution of funding between councils so that areas do not lose out because they currently collect less in business rates.

5.3 The Committee was told that Waltham Forest has always had a relatively low business rate base compared to other boroughs in London and, although this is growing, it will never be self-sufficient in this regard and will always need to rely on additional financial support from central government. This means that the Council must make strong
representations to government in order to make clear the level of need in the borough during the consultations on the new system that is to follow.

5.4 The new business rate revaluation took effect from 1 April 2017. The net increase in rateable values (RV) within Waltham Forest following these changes will be 37,895,842 or 26.3%. However, the increases on the highest rated properties are smaller than this overall average, while the attempt by Virgin Media to be reclassified and thus no longer pay business rates in Waltham Forest would mean that the overall increase in value of the highest value properties would drop to 2.1%. The council’s own buildings are affected by the revaluation, with an overall net increase of 1,142,445 in RV (30.4%). This equates to a financial cost of £547,230. Some of this increase will be retained by the Council but the overall net cost is not currently budgeted for.

5.5 There is a significant risk from the revaluation and this will be taken into account as part of the 2017/18 budget setting process, in particular with regard to the quantum of reserves needed to plan for these impacts.

5.6 The Committee also discussed the potential for the Council to make more flexible use of its reserves, based on a more detailed understanding of the risk appetite of the organisation. Cabinet has recently approved the use of any surplus in the Council Tax Collection Fund to be set aside in a separate reserve to cover the risks associated with the business rates revaluation, as well as more general
uncertainty around how the new localised taxation system will work in practice. At present it is not possible to articulate how big this fund should be, but this should be clearer in spring 2017.

5.7 The Council’s tax base in 2013/14 was 61.928m and is projected to grow to 74.882m by 2019/20. This represents a 21% increase or £29.1m in cash terms. Council Tax is a very important element of the Council’s overall budget strategy as it has helped to some extent to mitigate the impact of reductions in the RSG. However, although this growth is significant in cash terms, over the same period there has been significant growth in the borough’s resident population and their needs have also grown in complexity.

5.8 The plans for housing growth in the borough in particular the target of 12,000 homes by 2020 and the establishment of Waltham Forest Development Ltd in order to support this, is key to delivering the continued growth in Council Tax required to meet the needs of the borough’s growing population.

5.9 However, there are additional options for increasing the Council Tax base. The Committee were particularly interested in ways to improve collection rate performance. For example, in Hammersmith and Fulham they have increased the collection rate by reducing the lag time in payments between tenancies. In addition, Lewisham has brought its Council Tax collection service back in-house and this has also improved collection rates. The Committee felt
that there are opportunities for the Council to do more to improve collection rates, alongside increasing the overall Council Tax base by building more homes.

Recommendations

6. Finance officers should explore the scope to improve planning around reserves, and their potential for use in investment, by establishing a clearer articulation of the Council's risk appetite for reserves.

7. As the tax base continues to grow, the Revenue and Benefits Service should explore options for improving Council Tax collection rates, for example by bringing collection back in house or reducing the lag in payments between tenancies by automatically targeting landlords. These could provide valuable pilots for widening the use of data driven approaches to maximising revenue collection.

8. Waltham Forest should engage closely with other London councils to ensure it is well placed to capitalise on the transition towards 100% retention of business rates. The opportunity to enter into a pilot pool in 2018/19 could provide a valuable chance to support this.
7. Conclusion

7.1 Given the pressure on Council budgets and the need to ensure the local community benefits from strong economic growth, it is behoving on the Council to secure the maximum commercial gain from development in the borough. The Committee notes that the evidence suggests that the CIL charging rate for Waltham Forest is lower than most of the Council’s neighbours and feel an increase in the rate would not have a detrimental impact on development, given the buoyant state of the market. The Committee asks that the charging schedule is reviewed to properly reflect prevailing market conditions.

7.2 The Committee would also like to see a closer alignment of deciding S.106 spending priorities to corporate priorities and the capital programme. The Committee are aware a review of the Infrastructure Delivery Plan is now underway and believe this represents a good opportunity to achieve a stronger alignment.

7.3 The Committee welcomes the establishment of Waltham Forest Development Ltd (WFD) as a vehicle for Council led economic regeneration. The Committee are also very supportive of WFD playing a stronger strategic role in the regeneration of
development sites by giving the company the option of proposing the in-house development of specific sites, as well as WFD having the option of acquiring additional property assets, with the unambiguous intention of generating growth and commercial income for the Council.

7.4 The Committee believe that the Council should be less risk averse in terms of how it manages its finances. The Council needs to have a clear policy on why it holds a given amount of reserves and if there is a case for using funds currently in reserves in a different way? The Committee also believe the Revenues and Benefits Service should examine the options for improving Council Tax collection rates by looking at best practice in other London boroughs, with a view to its possible adoption by Waltham Forest.

7.5 The Committee is strongly of the opinion that the transition towards 100% retention of business rates provides an excellent opportunity for the Council to consolidate its financial position, given in future income will be clearly dependent on generating new business growth. The Council should look to enter into a pilot pool in 2018/19 with other London boroughs, to test the robustness of the new system and how well it works.